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OPEC Redux: Responding to the Russian–Iranian Gas Cartel

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Steadily and stealthily, a natural gas cartel has emerged over the last seven years. On October 21 in Tehran, the Gas Exporting Countries' Forum (GECF) agreed to form a cartel. Russia, Iran, and Qatar announced that they intend to form a yet-unnamed group to "coordinate gas policy." The Group of Three (the "troika") will meet quarterly to coordinate and exercise control over close to two-thirds of the world's gas reserves and a quarter of all gas production. To compare, the Organization of Petroleum Exporting Countries (OPEC) controls more than three-quarters of the world's oil reserves but only 40 percent of global production.

Iran has the second largest gas reserves in the world after Russia and the second largest petroleum reserves in the world after Saudi Arabia.

Russia prefers to coordinate energy policies with Tehran rather than compete. The two countries recognize that together they control roughly 20 percent of the world's oil reserves and about half of global gas reserves, an immense geo-economic clout.

The United States should create a global coalition of energy consumers to oppose oil and gas cartels and to bring market principles to the natural gas industry. The U.S. Congress should also liberalize regulations to allow energy exploration in the Arctic, in the Rocky Mountains, and along the Pacific and Atlantic continental shelves, where natural gas is abundant, and expand cooperative gas ties with Canada.

Russia's Global Gas Strategy. In the tight global energy market, Russia clearly appreciates the economic and political bargaining power that its vast energy resources provide, as it is attempting to control energy exports from the New Independent States, such as Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan. Russia also has strengthened its ties to Iran, Venezuela, Libya, and other major energy exporters. Recently, Moscow also launched a charm offensive on OPEC.

Thus, Russia is playing a complex and sophisticated game, one that is likely to maximize its advantage as the leading gas producer with the largest reserves on the planet as well as the largest oil exporter.

First, Russia's approach was gradualist. Moscow was never openly enthusiastic about a gas cartel but waited for an opportunity to launch one. Viktor Khristenko, Russia's former vice premier in charge of energy, rejected the idea just days before Putin called a gas OPEC "an interesting idea" during his February 2007 visit to Qatar. This past April at the Doha, Qatar, GECF meeting, Khristenko said, "We have not, do not have, and will not have the goal of organizing an alliance against anyone." This past week, however, Alexei Miller, chairman of Gazprom, announced the forming of "a big gas troika."[1]

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Careful examination of the official announcement after the Doha summit and media reports revealed that there was reason for concern last spring. Those concerns were validated on October 21 following the troika announcement.

Second, Russia's approach was stealthy. Instead of announcing the cartel prematurely and spooking consumer countries, it quietly put the component parts into place. At Doha, Russia initiated the creation of a "high level group" that will "research" the pricing of gas and develop methodologies using commonly accepted gas pricing models. Conveniently, Russia would staff this group. The recent announcement is significant as Gazprom would essentially become a market maker in the liquid natural gas (LNG) market and will define gas prices in Europe.

Third, until the Tehran declaration, Russia was able to appear reasonable. The price-regulating function of the GECF was supported by those Latin American countries that want to dispense with market principles, including competition, in the gas trade: Venezuela, Bolivia, and Argentina. Today, Iran (along with Venezuela) is applying its OPEC-honed instincts to the natural gas sector, demanding production cuts and price regulation. Nevertheless, Putin is credited with the idea of launching a cartel, and an unnamed high-ranking member of the Russian delegation to Doha told RIA Novosti in 2007 that as the gas market undergoes globalization, an organization such as a gas cartel will appear and is necessary.[2]

When the new group was announced on October 21, Russian officials allowed Iran's petroleum minister, Gholamhossein Nozari, to call the agreement a "gas OPEC" without using such language themselves.

Fourth, and most importantly, a cartel by any other name is still a cartel. At the Doha meeting, members of the GECF agreed to discuss dividing the consumer markets between them, particularly in Europe, where Russia and Algeria are already major players and Iran may join in the next decade. For example, if Russia agrees not to challenge Algeria's position in Spain, Algeria will steer clear of Germany, where Gazprom is the major player. This will clearly challenge the European Union's energy liberalization and gas deregulation policy, which took effect on July 1.

Geopolitical Clout. The troika and GECF members are planning to "reach strategic understandings" on export volumes, schedules of deliveries, and the construction of new pipelines. They also plan to jointly explore and develop gas fields and coordinate startups and production schedules. To continue their work, members plan to create a permanent secretariat. Despite protestations to the contrary, the GECF had all the trappings of a nascent cartel, and the troika includes its founding members. These founders will expand their cooperation beyond their relationship through the GECF and drag other gas producers with them.

Moreover, Russia and Iran are interested in increasing their leverage against the EU in areas that often have little to do with energy.

The new group will provide its three leaders with greater geopolitical advantage. If this new cartel expands, Russia and Iran are the net winners, as they will gain clout over smaller Eurasian gas suppliers, such as Azerbaijan, Turkmenistan, Kazakhstan, and Uzbekistan.

Major gas producers such as Iran, Russia, Qatar, Turkmenistan, Brunei, and Venezuela have one feature in common: a democracy deficit. All three members of the new cartel share this dubious quality. Just like OPEC, the gas cartel will be a formidable global geo-economic force that can be used to oppose, challenge, and possibly weaken market-based democracies through high energy prices and wealth transfer. Such a cartel may cut deals with similarly undemocratic large-scale consumers, such as China, while forcing the West to pay full price.

1. Nasser Karimi, "Russia, Iran and Qatar Discuss Forming Gas Cartel," Associated Press, October 21, 2008, at *http://news.yahoo.com/s/ap/20081021/ap_on_re_mi_ea/ml_gas_cartel* (October 28, 2008).
2. "Gas cartel necessity in globalization conditions—Russia source," RIA Novosti, April 9, 2007, at *http://en.rian.ru/world/20070409/63352419.html* (October 28, 2008).

Coordinated Global Action Needed. The Bush Administration barely reacted to the Tehran and Doha meetings. Ileana Ros-Lehtinen (R–FL), the Ranking Member of the House Foreign Affairs Committee, wrote to the secretary of state after the Doha meeting that the establishment of a gas OPEC would be a "major and long-term threat to the world energy supply" that the U.S. should "vigorously oppose." Officials express grave concern, but only in private.

In reaction to the October announcement, the European Commission stated that it "feels that energy supplies have to be sold in a free market" and that it opposed price-fixing cartels in principle. It remains to be seen if the recently defeated "Gazprom clause" of the unbundling proposal that would block Gazprom from owning mid- and downstream assets in Europe is resurrected. One also wonders whether the world would even be dealing with the emergence of a gas cartel if European companies such as E.ON and Eni had not been successful in lobbying for Russian energy interests.

As the case of OPEC demonstrates, closing markets to competition, promoting national oil companies, and limiting production through a quota system results in limited supply and higher oil prices. Gas, in the long run, will not be different.

What the U.S. Can Do. The United States should open its vast natural gas resources on- and offshore to further exploration and production and encourage its neighbors in Canada, Mexico, and the Caribbean to do the same.

Additionally, the next Administration must develop a clear global policy to limit cartelization of the gas markets. Specifically, the U.S. should work with the European Union member states, Japan, China, India, and other countries to prevent the cartelization of the gas sector. This can be accomplished through cooperation with the International Energy Agency, which China and India should be invited to join, and by applying anti-trust legislation worldwide against state-owned companies that are actively involved in cartel-like behavior in energy markets.

Finally, the U.S. should also work closely with those within GECF who oppose Russian-Iranian domination, including Azerbaijan, Canada, the Netherlands, and Norway. The National Security Council and the National Economic Council should take the lead in developing this policy. Unless buyer solidarity is translated into action, energy consumers and economic growth will suffer worldwide.

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